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BUSINESS CONDITIONS & FORECASTS

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AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. SEATTLE, WASHINGTON
MARCH 26, 1940

Problems of Top Management Executives To Be Discussed in Sessions on April 11

How management is adjusting its major policies to conform with today's needs and to provide a sound basis for building a healthy business structure will be the theme of the special "off the record" conference on top management problems which will be held on April 11 at the Waldorf-Astoria, New York City. Planned under the direction of W. L.

Batt, president, SKF Industries, Inc., and Thomas Roy Jones, president, American Type Founders, Inc., the meeting is being held in response to a widespread desire among member companies for a special top management conference.

Its purpose is to provide an opportunity for free exchange of opinions and
(Continued on back page)

The President's Scratch-Pad

¶ Should we let an outside organization—a so-called consulting firm—come in and look us over? This is a question that comes up sooner or later in the life of every company.

¶ Usually the question arises under two kinds of circumstances: One is when an unsatisfactory condition prevails throughout the company, or in one or two of its important divisions. Things just are not "running right." The management senses it, executives see partly what is wrong, but cannot seem to effect a cure.

¶ The other condition might be when everything seems to be running smoothly—production, sales, finance, personnel, etc. Yet the management is just self-searching enough to ask: "Is everything as smooth and efficient as it seems—are we overlooking some bets? Are we blinded by our own familiarity?"

¶ What to do? Can outside people diagnose the situation better than the concern's own executives—men who know the company backward and forward? What will be the effect on the personnel? Will an objective survey "show up" some executive or department?

¶ When these questions come up, here are some points to be kept in mind. They have been gleaned from the experience of those who have already faced the situation: (1) The experienced consulting management engineer, who brings perspective and a fresh mind to bear on a given problem, is an accepted and welcome figure in modern business circles. Consultants are used by the best managed and most forward-looking compa-

nies. (2) It is folly, however, not to check the reliability and integrity of the consultant who is retained. (3) Miracles should not be expected, and, (4) it should be realized at the start that a consultant can be no better than the executive brains of the company that hires him because in the end the executives will have to decide whether to accept the consultant's recommendations and will have to be able to carry them out. (5) Little can be expected of a consultant if he does not receive complete cooperation and is not given sufficient time in which to make his surveys.

¶ To my mind the most important problem in connection with the use of consultants is their possible effect on the employees of the company involved. Executives, foremen, and supervisors are liable to be extremely resentful of the intrusion. There may be mutterings about the "snooping" and real damage may be done to staff morale. The good consultant will guard against this, and the company, if it is wise, will prepare the way for the consultant by taking the entire management staff into its confidence.

¶ Some of the most important management progress that the country has seen has been the work of consultants. If the consulting group strives to keep the standards of its profession high and if management views the process of consulting open-mindedly, more progress may be expected, for the principle upon which consultants operate is wholly sound.

Alvin E. Dodd

BUSINESS OUTLOOK

Decline Continues in Industrial Activity; Leveling Expected by Mid-Spring

All evidence now available indicates that the decline in industrial activity that began in January has not ceased. March also will be marked by decreased industrial volume, but the hope now is that statistics at the end of the month will reveal that the rate of decline, at least, has slowed down somewhat. This epitomizes the expressions by observers contributing to the summaries on the inside pages of this LETTER.

While, compared to previous periods of last year, the volume of business is good, the trend is distinctly downward, and is moving in that direction faster in some lines than in others. The consensus of most observers is that the index of business activity will begin to level toward mid-Spring, but there is little belief that this will be the forerunner to a strong upward reversal of the trend.

COMMODITIES STEADY

There is probably no question but that inventory reductions are now going forward intensively, since there was considerable building up at the outbreak of the war. However, while the war continues most companies will be loathe to let their inventories fall too low, and this fact should have some steadying effect. Meanwhile, prices of commodities on the whole remain fairly steady. Business men have the inflationary possibilities of war periods well in mind, but there is plenty of evidence that supplies of goods are ample.

Accompanying the declines in industrial reproduction have been increases in unemployment, especially in the durable goods industries. Unemployment has also increased in the construction field, in which activity has had a more than seasonal decline.

The index of factory payrolls, on the basis of 1923-1925 as 100, declined from 103.6 in December to 98.1 in January, offsetting completely the gains made since October, 1939. However, compared with a year ago, the January index showed a gain of 17.2%.

BUSINESS CONDITIONS & FORECASTS . . .

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	The national income produced in the United States declined in January for the third consecutive month; preliminary figures indicate that the downward trend was extended in February, and it is possible that it will continue in March; but, even if this occurs, an upturn should not be long postponed (March 16).	The current setback represents merely a readjustment in the economic cycle's typical progress toward prosperity; the long-term prospect is for an upward trend of considerable scope in prices of commodities and stocks, as well as for substantial expansion in the volume of general business (March 2-16).	Industrial activity has now lost all its wartime gains; the <i>Business Week</i> Index of Business Activity stands at 107.9 (when the war started it registered 108.2); however, analysis of basic industries indicates that the decline is now critically close to the point at which it may be expected to level off (March 16).
Money and Credit	Excess reserves of member banks have risen to a new record high of \$5,730,000,000. National banks in the hands of receivers were reduced in 1939 from 520 to 367 (March 16).	The trend of bank deposits points still higher—with the end so remote as to defy calculation; the supply-and-demand forces operating in money indicate that its value in terms of purchasing power will decline, and this will contribute to the influences making for a rising price level (March 16).	Interest rates are easy, banks are expanding (rather than contracting) their loans and investments, buying power (as measured by bank deposits) is at record levels, and excess reserves get bigger week by week; these are economic phenomena which customarily accompany a rise in general business (March 9).
Security Markets	Recent movement of stock prices has prolonged the straight, lateral drift which characterized the market this year and, except for a brief bulge and decline, since late November. However, the persistence of a small volume which tends to increase as prices rise point to a technically strong rather than a weak market (March 14).	Stock prices continue in a narrow range—with basic recovery not active enough to generate a sustained rise, yet with prevailing uncertainties not serious enough to bring important liquidation; the primary trend of the market is upward (March 16).	Stability is evident in general market movements; common stock prices have held within a four-point range since Thanksgiving, and of late there have been signs of champing at the bit; bond prices have given no indications of the uneasiness that usually accompanies a sharp decline in business (March 9).
Production	Actual steel output has increased from 64.6% of capacity last week to 64.7% this week, for the first rise in 10 weeks, suggesting that the drop in steel production may have practically run its course; since normal demand for steel is still below actual output, no sharp expansion can be expected in the near future (March 16).	Bright spots on the business horizon include (1) an unusually early increase in automotive output, and (2) tapering off in the decline of steel operations; the fear that a protracted period of under-production lies ahead is not substantiated by inventory reports or by the stock market (March 2).	Current consumption of steel is estimated at close to 70% of capacity, but production is running along at 65% of capacity and incoming orders are at less than 50% of capacity; thus steel orders ought to pick up in the next few months; in autos, however, a dip in production is to be expected (March 16).
Distribution	Department store sales during the week ended March 2 were 6% larger than a year ago as compared with a gain of 5% in the preceding week; General Motors has reported car and truck sales to consumers rising to 123,874 units in February from 120,809 in January and from 83,251 in February last year (March 16).	Retail sales of automobiles have been fairly active even under adverse weather conditions, and electric refrigerator sales recently registered a 56% gain; however, carloadings have been unable to maintain their previous level (March 9-16).	Purchasing power continues at a comparatively high level—right near the 1937 highs—providing a definite cushion against any general business collapse; the war offers a constant incentive to maintain inventories, so that re-ordering will respond quickly to any drop in retailers' stocks (March 16).
Construction	Building contracts, on which manufacturing is dependent to a great extent, showed more than the usual seasonal reduction from December to January and dropped below the level of a year ago; this decline in contracts will be a factor retarding renewed expansion of factory output (March 16).	According to the <i>Engineering News-Record</i> , building engineering contracts during February were 41.1% above January, and 32.9% higher than in February, 1939 (March 2).	While total construction remains considerably below 1939 levels, the usual sharp seasonal drop from January to February in contracts awarded did not occur this year; factory and commercial building are still the strong spots, but residential volume is not expanding (March 16).
Agriculture	The Institute of American Meat Packers reports that the output of meat in January was 25% greater than a year ago and the largest for any January in the last eight years; wool production rose to 441,897,000 lbs. in 1939 from 436,472,000 lbs. in 1938 (March 9).	Though the Department of Agriculture's seasonally adjusted index of farm income (on the basis of 1924-29=100) was 8.5% lower in January than in December, it was 2.4% above January, 1939 (March 2).	The average price of wheat is now \$1.00 a bushel, which compares with \$0.98 a month ago and \$0.69 a year ago; cotton is quoted at 10.52¢ a pound, compared with 10.63¢ a month ago and 8.76¢ a year ago (March 16).
Commodity Prices	Analysis of the long term of commodity prices shows a deflationary phase of a new cycle; such movements of the past indicate the present one will not end before 1948; the probability is that the temporary price rally begun in 1933 will feature a secondary phase, and the end of the current deflation will be postponed (March 9).	The <i>Journal of Commerce</i> composite index of wholesale prices registered 127.9 on February 29, which compares with 128.2 a month ago and 117.6 a year ago (Dec., '33=100); indications are that commodities will tend to firm up (March 2).	Commodities in general are doing all right: the non-ferrous metals have been buoyant, led by copper; wheat shows intermittent bursts of strength; Moody's Index has just turned up again; on the whole, the list of sensitive staples has been more strong than weak (March 9).
Labor and Wages	The index of factory payrolls, on the basis of 1923-1925 as 100, declined from 103.6 in December to 98.1 in January, offsetting completely the gains made since October, 1939; compared with January a year ago, the present index showed a gain of 17.2% (March 16).	The Labor Bureau's index of factory employment stood at 101.6 for January, which compares with 104.0 in December and 89.5 in January, 1939 (1923-5=100); the factory payroll index registered 98.1 in January, compared with 103.9 in December and 83.2 in January last year (March 2).	If the Smith amendments to the NLRA are not overtaken by adjournment, the President will veto them—at any rate, their demise seems an election-year certainty; timing his moves to stop any possible action, the President is shortly expected to shake up the personnel of the NLRB (March 16).
Foreign Trade and Conditions	The value of merchandise exported from the United States in January rose to the highest monthly figure since early in 1930; despite this gain in exports, shipments of merchandise, gold and silver to the United States by foreign countries were more than enough to pay for their purchases here (March 9).	Exports of merchandise in January were 73.1% higher than in January, 1939, and 0.2% above the previous month; January merchandise imports were 1.9% under December but 35.8% above January, 1939 (March 2).	Foreign commercial payments to the United States are estimated to have averaged about \$200,000,000 a month for the last four months, according to the New York Reserve Bank (March 9).

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Dun's Review

The downswing in industrial activity has tapered off but is still in progress; ordering is being done warily, for a maximum of three months ahead; price averages show little change; retail trade is spotty, well above 1939 when Easter was later (April).

Bank clearings (22 cities) totalled \$20,446,428 in February, or 14.5 per cent below January and 3.7 per cent above a year ago; the adjusted Insolvency Index (Failures) stood at 58.0 in the same month, compared with 54.6 in January and 67.8 in last February (April).

Apathy in stock market trading reflects the prevailing uncertainty but also the absence of grave fears; new corporate issues, which increased moderately for the fifth consecutive month, in February were above the average monthly volume for 1939 but still well under 1937 and 1938 averages (April).

Producers' backlogs of unfilled orders have continued to shrink despite a sharp contraction in operations in many lines; the FRB adjusted index of production was estimated at 109 for February, compared with 119 for January and 128 for December (April).

The Spring rise in retail trade gained headway slowly; volume showed improvement over the 1939 level partly because of the earlier date of Easter this year; the U. S. Trade Barometer registered 94.9 in January, 3.9% above last January (April).

Total building permits issued in February displayed a moderate seasonal increase over the January figure and amounted to the highest figure for any February since 1931; volume for 215 cities was \$90,508,453, an increase of 11.2% over last February's total of \$81,383,080 (April).

Commodity prices continued to drift in a sidewise direction; the Daily Wholesale Price Index, which has not moved out of the range 118-120 in the past month and a half, registered 118.50 in mid-March (April).

Trade with foreign countries declined from the January peak, due in part to fewer shipping days in February, but continued substantially above last year; merchandise exports of about \$339,000,000 contrasted with \$216,000,000 in the 1939 month (April).

Cleveland Trust Company

A rather important decline in business activity is under way; the Federal Reserve Index of industrial activity has fallen from 128 in December, to 119 in January, to 109 in February, and indications are that it will decline in March; if the decline is to be checked, some powerful new force must be used (March 15).

An idea exists that prevailing common stock prices are low in comparison to corporate earnings and prospects. It is not true that dividend paying common stocks are now notably under-priced when judged merely on the basis of their yields; prices do not appear low unless the yield is compared to that from high grade bonds (March 15).

Preliminary February figures indicate that industrial production was 19.8% below normal for that month, and the decline is continuing slowly; this has been under way since January; the recent declines being largely in outputs of durable goods, especially iron and steel; the declines have also hurt employment (March 15).

During recent months the loadings of railroad freight, and the earnings of the roads, have shown exceptionally good increases, but even so the transportation of freight by trucks continues to grow more rapidly than the freight traffic of the railroads (March 15).

Some considerable part of the decreases in construction activity were the result of the severe weather conditions; the lessened activity in construction has also been responsible for much of the decline in employment (March 15).

The workers engaged in making durable goods and in the construction industry are only about three-fourths as numerous as they were before the depression, while employment among all other workers is as great now as it was in 1929 (March 15).

National City Bank

The maladjustments responsible for the current decline are confined chiefly to production rates, now being corrected; while fear is expressed in some quarters that consumption will fall off severely and cause the recession to spiral downward, the weight of evidence seems to be against this (March).

While total loans and investments of reporting member banks increased slightly in the last month, there has been very little gain on balance since the end of November; as compared with a year ago, total loans and investments are up \$1,600,000,000, approximately 78% of which has been in investments (March).

The volume of new capital issues offered in the investment market continues low, the poor fourth quarter of 1939 having been followed by a total of only \$32,000,000 in January (March).

The indexes of production have continued the rapid decline which began in January; further curtailment seems likely in lines where stocks of goods are still being added to or where the disposition to work off inventories is most pronounced; in many cases, however, new orders have dropped below consumption (March).

With allowance for seasonal trends, department store sales as a whole evidently declined during February as compared with January, which in turn was lower than December; nevertheless, sales have been above a year ago, and the outlook for Spring trade generally is considered satisfactory (March).

Building contract awards since the first of the year have fallen below expectations; in January the total was 25% under last year, and in the first three weeks of February 18% lower; private construction has held approximately even with the 1939 figures, but public building has been almost 40% lower (March).

Farm income including Government payments in January was greater than in December, after seasonal adjustment, and higher than a year ago; February also is expected to exceed last year, and the Department of Agriculture is of the opinion that the whole of the first half-year will show an improvement (March).

The commodity markets have supplied encouragement during February, with staple commodities leveling off after the January drop; export gains were registered in January for metals, metal products, and raw cotton (March).

Export figures have continued to make a strong showing; at \$369,000,000 the January total slightly exceeded the December figure, although usually there is a seasonal decline; the total was the best in any month since the Spring of 1930 (March).

Cost Reduction To Be Main Topic At Production Sessions

AMA will attack the cost reduction problem in comprehensive fashion when the Association's Production Division holds its second conference of the year, in New York on May 22-23. At this meeting, which is to be held at the Hotel Pennsylvania, cost reduction will be discussed from every conceivable angle, and the experiences of companies in a wide variety of industries will be related.

The meeting has been planned in such a way as to reveal many new methods for cost reduction. The sessions are being arranged under the direction of Raymond S. Perry, Vice President of the Ingersoll Milling Machine Company, and AMA Vice President in Charge of the Production Division.

The meeting will open on Wednesday morning, May 22, with papers on the fundamentals of organizing for cost reduction by Mr. Perry, D. F. Carpenter, Director of Manufacturing, Remington Arms Company, and G. M. Read, Assistant Manager, Industrial Engineering Division, E. I. duPont de Nemours & Company, Inc.

At a luncheon on Wednesday, the subject of production and employment stabilization will be discussed from a variety of viewpoints, with a view to showing just how the production executive can contribute to the solution of this problem.

CASE EXAMPLES

Wednesday afternoon will be featured by a paper by W. C. Zinck, Management Engineer, Talon, Inc., on "Selling Cost Reduction to the Entire Organization." This presentation will be followed by case examples by: David B. Porter, Professor, Industrial Engineering, New York University; H. J. Beattie, Supervisor of Material Handling, Manufacturing General Department, General Electric Company; and Clifton H. Cox, Industrial Engineer, Johnson & Johnson.

J. Walter Dietz, Personnel Relations Manager, Western Electric Company, and Vice President, AMA Personnel Division, will open the meeting on Thursday morning, with a paper covering personnel factors in the cost reduction program. This will be followed by a talk by Roswell B. Davenport, Larus & Brother Company, Inc., on how to organize a supervisory program for cost reduction.

In the afternoon, there will be papers by A. F. Kindall, Assistant to the Director of Industrial Relations, General Foods Corporation, on job evaluation and by J. T. Hopkins, Industrial and Public Relations, Edgar T. Ward's Sons Company, on merit rating. The session will be presided over by W. W. Finlay, Manager, License Division, Wright Aeronautical Corporation.

Three Outstanding Sales Presentations Chosen in Contest

Three outstanding sales presentations were selected by a jury as the best of 150 such presentations submitted in the AMA product promotion contest sponsored in connection with the annual meeting of the Association's Marketing Divisions.

The winning presentations were: in the consumer group, the presentation used by the Aero Mayflower Transit Company, national furniture movers; in the industrial group, the one used by the Southwestern Bell Telephone Company illustrating the uses of the telephone in the working place; and in the dealer group, the presentation of the Continental Steel Company used to assist in selling steel fence.

All three presentations, as well as many others of merit, will be on display as one of the features of the Marketing Conference being held this week at the Hotel Roosevelt, New York City.

Insurance Division Will Discuss Problems Of the Buyer

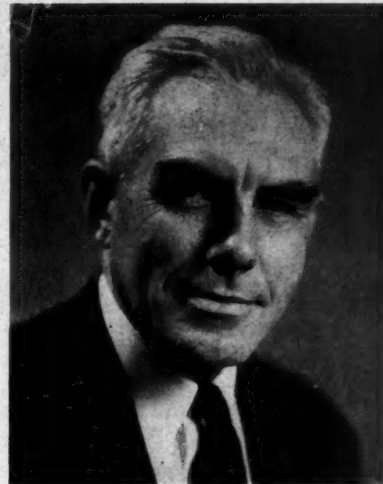
A review of the most pressing problems now facing the insurance management departments of industrial companies will feature the annual Spring meeting of the Insurance Division of the American Management Association, to be held on May 6-7 at the Hotel Traymore, Atlantic City, N. J.

The completed program for the sessions was announced this week by Ralph H. Blanchard, Columbia University School of Business, Vice President of the Association's Insurance Division.

The meeting will open on Monday, May 6, with a questions-and-answers session, presided over by Mr. Blanchard. Members of the Association are submitting questions for discussion at this session.

On Monday afternoon, there will be four concurrent sessions, each in charge of an insurance buyer, aided by a technical adviser. The topics to be discussed at these sessions are: boiler and machinery coverage, bonding, fire insurance, liability and compensation. On Monday evening, there will be a dinner, at which W. J. Graham, Vice President, Equitable Life Assurance Society of United States, will give an address on "Keeping Up to Date on Group Insurance."

On Tuesday morning, there will be two addresses, one by Kenneth C. Bell, Second Vice President, The Chase National Bank, on "The Bank and its Customers' Insurance," and another by J. W. Myers, Annuity and Benefit Department and Insurance, Standard Oil Company of New Jersey, entitled "When is Self-Insurance Practical?" The discussion lead-



E. O. SHREVE

Mr. Shreve, Vice-President, General Electric Company, is the AMA Vice-President opening the annual meeting of the Association's Marketing Divisions which is taking place this week in New York City. Mr. Shreve, along with Irwin D. Wolf, Vice-President of Kaufmann Department Stores of Pittsburgh, directed the planning of the sessions.

ers for Mr. Bell's address will be J. H. Mears, Vice President, Brown, Crosby and Company, Inc., and L. E. Kietzmann, Secretary, American Insurance Company, Newark, New Jersey.

The concluding session of the Conference on Tuesday afternoon will consider revision of the standard fire insurance policy. A paper on this subject will be given by Reginald Fleming, Insurance Manager, Commonwealth & Southern Corp., and discussion leaders will be Chase M. Smith, Secretary, National Retailers Mutual Insurance Company, and Clayton G. Hale, The Hale & Hale Company.

New Catalogue of AMA Literature

A new catalogue of AMA literature covering all publications, except periodicals, issued since 1932 and up to March 1940, has recently been published by the Association. The catalogue is a printed booklet and contains short descriptive summaries of the contents of a large number of the publications. A copy of the catalogue, which is called "Recent Publications of the American Management Association" may be procured by any member by writing to AMA headquarters, 330 West 42nd Street, New York City.